

CITY OF FARMERSVILLE

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2002, through June 30, 2013

TRAFFIC CONGESTION RELIEF FUND

July 1, 2002, through June 30, 2013

PROPOSITION 1B FUND

July 1, 2008, through June 30, 2013



JOHN CHIANG
California State Controller

June 2014



JOHN CHIANG
California State Controller

June 30, 2014

The Honorable Leonel Benavides
Mayor of the City of Farmersville
909 W. Visalia Road
Farmersville, CA 93223

Dear Mayor Benavides:

The State Controller's Office audited the City of Farmersville's Special Gas Tax Street Improvement Fund for the period of July 1, 2002, through June 30, 2013. We also audited the Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2002, through June 30, 2013; and reviewed the Proposition 1B Fund for the period of July 1, 2008, through June 30, 2013.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund, and Proposition 1B Fund in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$12,594 as of June 30, 2013, because it charged the same expenditure twice, misposted sale of equipment, and charged an ineligible expenditure.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, by telephone at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sk

cc: Mario Krstic, City Manager
City of Farmersville
Steven Huntley, Finance Director
City of Farmersville
Steven Mar, Bureau Chief
Division of Audits, State Controller's Office
Mike Spalj, Audit Manager
Division of Audits, State Controller's Office

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Audit Report

Summary

The State Controller's Office audited the City of Farmersville's Special Gas Tax Street Improvement Fund for the period of July 1, 2002, through June 30, 2013. We also audited the Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2002, through June 30, 2013; and reviewed the Proposition 1B Fund for the period of July 1, 2008, through June 30, 2013.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund, and Proposition 1B Fund in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$12,594 as of June 30, 2013, because it charged the same expenditure twice, misposted sale of equipment, and charged on ineligible expenditure.

Background

The State apportions funds monthly from the highway users tax account in the transportation tax fund to cities and counties for the construction, maintenance, and operation of local streets and roads. The highway users taxes derive from state taxes on the sale of motor vehicle fuels. In accordance with Article XIX of the California Constitution and Streets and Highways Code section 2101, a city must deposit all apportionments of highway users taxes in its Special Gas Tax Street Improvement Fund. A city must expend gas tax funds only for street-related purposes. We conducted our audit of the city's Special Gas Tax Street Improvement Fund under the authority of Government Code section 12410.

Government Code section 14556.5 created a Traffic Congestion Relief Fund in the State Treasury for allocating funds quarterly to cities and counties for street or road maintenance, reconstruction, and storm damage repair. Cities must deposit funds received into the city account designated for the receipt of state funds allocated for transportation purposes. The city recorded its TCRF allocations in the Traffic Congestion Relief Fund. We conducted our audit of the city's TCRF allocations under the authority of Revenue and Taxation Code section 7104.

Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, was introduced as Proposition 1B and approved by the voters on November 7, 2006, for a variety of transportation priorities, including the maintenance and improvement of local transportation facilities. Proposition 1B funds transferred to cities and counties shall be deposited into an account that is designated for the receipt of state funds allocated for streets and roads. The city recorded its Proposition 1B Fund allocations in the Proposition 1B Fund. A city also is required to expend its allocations within four years following the end

of the fiscal year in which the allocation was made and to expend the allocation in compliance with Government Code section 8879.23. We conducted our review of the city's Proposition 1B allocations under the authority of Government Code section 12410.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended the Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund, and the Proposition 1B Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code. To meet the audit objective, we determined whether the city:

- Properly deposited highway users tax apportionments and other appropriate revenues in the Special Gas Tax Street Improvement Fund;
- Properly deposited TCRF allocations into an account designated for the receipt of State funds allocated for transportation purposes;
- Expended funds exclusively for authorized street-related purposes; and
- Made available unexpended funds for future expenditures.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We did not audit the city's financial statements. We limited our audit scope to planning and performing the audit procedures necessary to obtain reasonable assurance that the city accounted for and expended the Special Gas Tax Street Improvement Fund, the Traffic Congestion Relief Fund, and the Proposition 1B Fund in accordance with the requirements of the Streets and Highways Code, Revenue and Taxation Code section 7104, and Government Code section 8873.23. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street purposes. We considered the city's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit found that the City of Farmersville accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code for the period of July 1, 2002, through June 30, 2013, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings require an adjustment of \$12,594 to the city's accounting records.

Our audit also found that the city accounted for and expended its Traffic Congestion Relief Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104 for the period of July 1, 2002, through June 30, 2013.

In addition, our review found that the city accounted for and expended its Proposition 1B Fund in compliance with Government Code section 8879.23 for the period of July 1, 2008, through June 30, 2013.

**Follow-Up on Prior
Audit Findings**

Our prior audit report, issued on August 4, 2003, disclosed no findings.

**Views of
Responsible
Officials**

We discussed the audit results with city representatives during an exit conference on November 26, 2013. Mario Krstic, City Manager; Steven Huntley, Finance Director; and Betina Ashoori, Finance Manager, agreed with the audit results. Mr. Huntley further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

Restricted Use

This report is intended for the information and use of the City of Farmersville's management and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

June 30, 2014

Schedule 1— Reconciliation of Fund Balance July 1, 2012, through June 30, 2013

	Highway Users Tax Allocations ^{1, 2, 3}
Beginning fund balance per city	\$ 336,250
Revenues	<u>260,225</u>
Total funds available	596,475
Expenditures	<u>(331,707)</u>
Ending fund balance per city	<u>264,768</u>
Timing adjustment:	
Accrual of June 2013 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	<u>(9,269)</u>
SCO adjustments: ⁴	
Finding 1—Duplicate charges	7,870
Finding 2—Misposted sale of equipment	4,000
Finding 3—Ineligible expenditure	<u>724</u>
Total SCO adjustments	<u>12,594</u>
Ending fund balance per audit	<u>\$ 268,093</u>

¹ The city receives apportionments from the State highway users tax account, pursuant to Streets and Highways Code sections 2103, 2105, 2106, 2107, and 2107.5. The basis of the apportionments varies, but the money may be used for any street purpose. Streets and Highways Code section 2107.5 restricts apportionments to administration and engineering expenditures, except for cities with populations of fewer than 10,000 inhabitants. Those cities may use the funds for rights-of-way and for the construction of street systems. The audit period was July 1, 2002, through June 30, 2013; however, this schedule includes only the period of July 1, 2012, through June 30, 2013.

² Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, introduced as Proposition 1B, provided funds for a variety of transportation priorities. The audit period was July 1, 2008, through June 30, 2013. The city did not receive any Proposition 1B revenues and did not incur any Proposition 1B expenditures during FY 2012-13; therefore, it is not included in this schedule.

³ Government Code section 14556.5 created a Traffic Congestion Relief Fund (TCRF) in the State Treasury for allocating funds quarterly to cities and counties for street and road maintenance, reconstruction, and storm damage repair. The TCRF allocations were recorded in the Traffic Congestion Relief Fund. The audit period was July 1, 2002, through June 30, 2013. The city did not receive any TCRF revenues and did not incur any TCRF expenditures during FY 2012-13; therefore, it is not included in this schedule.

⁴ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Duplicate Charge

During fiscal year (FY) 2012-13, the city erroneously charged the Special Gas Tax Street Improvement Fund twice in the amount of \$7,870 for the same expenditure.

Streets and Highways Code section 2101 restricts the expenditures of the Special Gas Tax Street Improvement Fund to actual street-related costs.

Recommendation

The city should transfer \$7,870 into the Special Gas Tax Street Improvement Fund. In addition, the city should establish procedures to ensure that costs are charged only once to the Fund.

The city agreed with our finding and recommendation and reimbursed the Special Gas Tax Street Improvement Fund \$7,870 with Journal Entry 2014-03, dated November 26, 2013.

FINDING 2— Sale of equipment

During FY 2012-13, the city deposited \$4,000 for sale of equipment into the General Fund instead of into the Special Gas Tax Street Improvement Fund (Gas Tax Fund).

The SCO's Guidelines Relating to Gas Tax specify that all Gas Tax Fund revenues must be deposited in the Gas Tax Fund.

As a result, the fund balance in the Gas Tax Fund was understated by \$4,000.

Recommendation

The city should reimburse \$4,000 to the Gas Tax Fund. In the future, the city should ensure that all Gas Tax Fund revenues are deposited in the Gas Tax Fund.

The city agreed with our finding and recommendation and reimbursed the Special Gas Tax Street Improvement Fund \$4,000 with Journal Entry #2014-05, dated November 26, 2013

FINDING 3— Ineligible expenditure

The city improperly charged \$724 to its Special Gas Tax Street Improvement Fund for the cost of grant research.

Streets and Highways Code section 2101 specifies that gas tax apportionments may only be expended for street-related purposes. As the grant research is not considered street-related, these costs are unallowable.

Recommendation

The city should reimburse \$724 to the Special Gas Tax Street Improvement Fund. In addition, the city should establish procedures to ensure that all costs charged to the Gas Tax Fund are street-related.

The city agreed with our finding and recommendation and reimbursed the Special Gas Tax Street Improvement Fund \$724 with Journal Entry #2014-06, dated November 26, 2013.

**State Controller's Office
Division of Audits
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